



# Rutherford County Pension

**Any changes would apply to**  
**FULL TIME NEW HIRES ONLY**



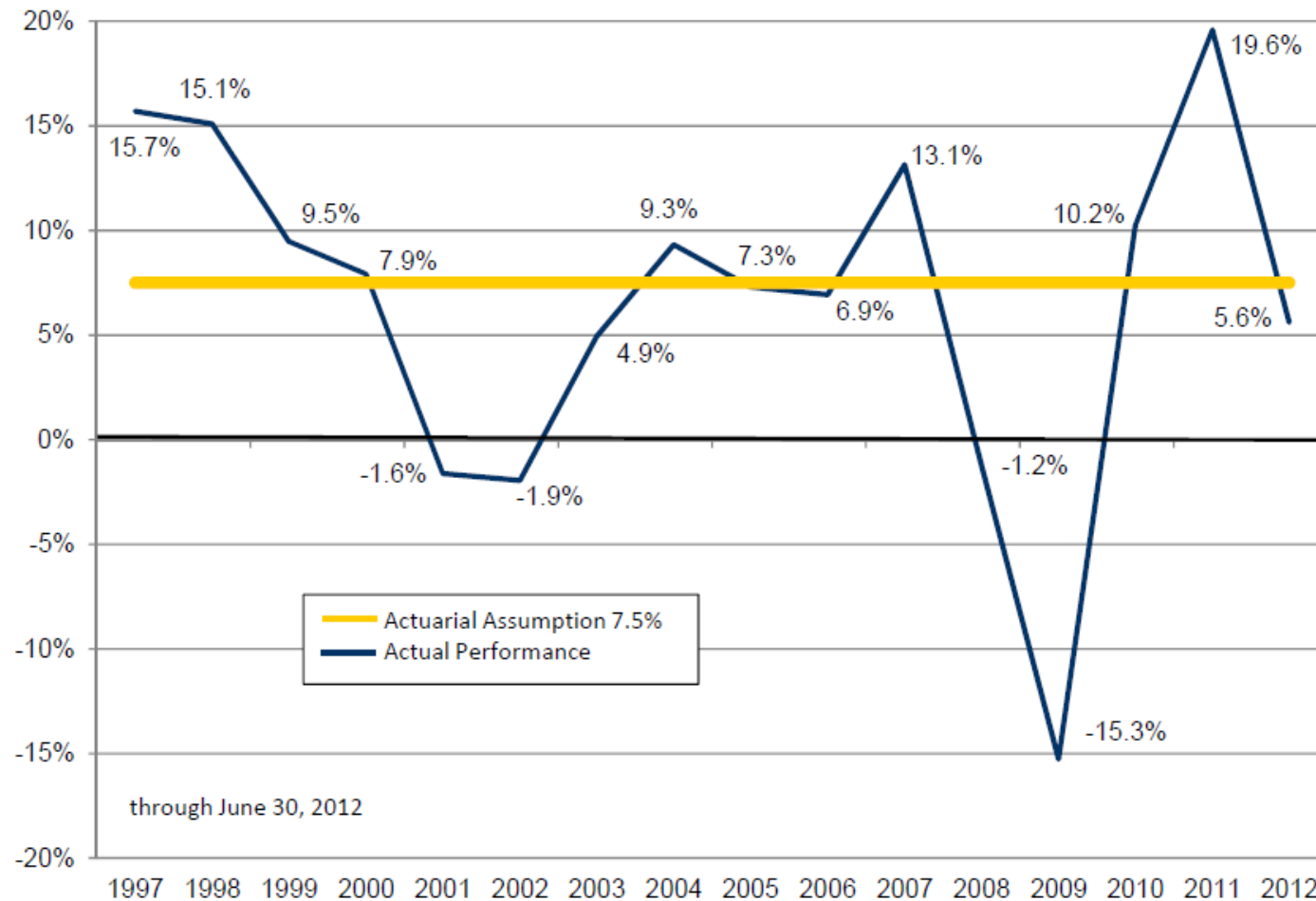
## How does TCRS rank?

- Established in 1972
- TCRS ranked as a “Solid Performer” by The Pew Center on the States, this was given to only 10 other states
- Moody’s ranks TCRS as Aaa (highest ranking available) with a stable outlook
- Fitch ranks TCRS as AAA
- Standard and Poor’s ranks TCRS as AA+
- Money Management Intelligence states that TCRS is managing its investments better than any other large public pension plan in the country and recognized them as the Large Public Plan of the Year on March 13, 2013
- On June 30, 2012 TCRS received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for the 25<sup>th</sup> year in a row
- The Public Pension Coordinating Council gave TCRS the Public Pension Standards Award for Funding and Administration for 2013
- TCRS 487 Political Subdivisions
- 210,493 active members
- 122,499 current beneficiaries
- \$38 billion in assets
- Projected investment returns of 7.5%; actual fiscal 2013 returns were 9.9%
- \$1.63 billion in payroll to Tennessee residents
- 92.1% funded as of July 1, 2011 which is ahead of the 75.8% average of the largest public retirement systems nationally
- TCRS’s investment division includes 14 chartered financial analysts, which is the highest level of professional attainment for investment professionals

# Retirement System



## TCRS Investment Performance



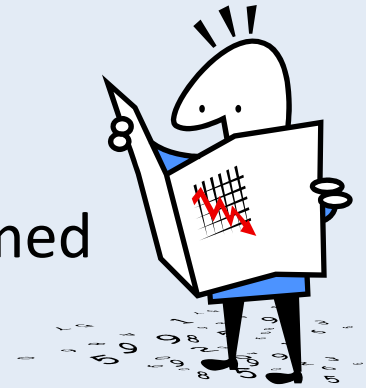
# Rutherford County's Pension



- Cost for our current pension for County General is \$5.3 million and BOE \$16.7 million is annually funded by the county on behalf of the employees
- If investments do not have a 7.5% rate of return or greater then the current retirement plan “may be” costly in the future
- Any changes made will need to ensure that there is a viable plan in place that will maintain the county's ability to recruit, hire, and retain quality employees

# What Would Cause the Pension Liability to Increase?

- Increase in employee population
- Investment “losses” (anything below assumed rate of return which is currently 7.5%)
- When lifespan surpasses projections
  - Under 65 years of age for a longevity of 70.8 to 78.7 years
  - Over 65 years of age for a longevity of 80.2 to 84.2 years
- Actuarial “losses” (faulty assumptions about retirees, e.g. life expectancy, value of final salaries, etc.)





# POTENTIAL INCREASED COSTS

*Uncertainty of annual pension rates*

- County General and BOE classified rate has gone from 7.46% in 1995 to a current rate of 12.69%; and BOE teacher and certified rate has gone from 6.5% to 8.88% of total full time salaries but they pay 5% towards the full rate of 13.88%



# LIABILITY AND RISK

## *Increase in pension liability on credit ratings*

- Moody's has proposed giving more weight to pension liabilities and other long term debts in its overall scorecards for rating general obligation bonds. Moody's stated that debt burden trends are an indicator of a population's capacity to absorb additional obligations. [www.governing.com](http://www.governing.com) – September 19, 2013
- Beginning fiscal year 2015, the Governmental Accounting Standards Board – GASB - will require the State and local governments to include the net pension liability as an entry in the liabilities section of the Consolidated Annual Financial Report also known as CAFR. Currently the standards only require the liabilities to be listed in the footnotes. It is anticipated that GASB will require unfunded Other Post Employment Benefit – OPEB – liabilities to be recorded in a similar manner.





# PUBLIC TRUST

*Payouts in benefits impact on tax rate*

- Fiscally sustainable at reasonable budget levels
- Fair benefits for county employees and fair controls for taxpayers
- Reduce liabilities for future generations



# Demographics of Full Time Employees in County General

- Currently 989 active full time employees
- 579 have less than 10 years of service
- 28 have 30 years of service or more
- 186 are 55 years of age or older
- Average age of active full time population is 44
- Average years of service of active full time population is 10
- Average salary of active full time is \$32,825 which means under current plan they would draw \$1,292 per month
- Average draw for all current county retirees is \$1,287 per month
- Average age of all current county retirees is 70





# Types of Retirement Plans

## Defined Benefit

A defined benefit plan, also called a pension, is a plan that pays a specific amount of money, either per month or in a lump sum, when you become eligible for retirement benefits. These plans usually have formulas to determine how much you receive in benefits based on criteria such as how long you have worked for the organization and what your salary is. This takes the mystery out of retirement planning for the employee. Generally, the employer pays the complete cost of a defined benefit plan. Governments usually have defined benefit pensions as one of its benefits to offset salaries.

## Defined Contribution

A defined contribution plan is a plan that does not pay a specific amount when you retire, but allows you to save money in a tax deferred account. A 401k is a common type of defined contribution plan. At retirement, you withdraw this money over time for living expenses. An employer usually contributes to a defined contribution plan also, either in the form of a match of some portion of your contributions or a fixed amount. *A defined contribution plan does not guarantee to have any particular value when you retire and may gain or lose value depending on investment performance.* Most defined contributions are considered supplement retirement plans to offset the difference of your current salary versus your pension and social security.

# Current TCRS Plan for County General and BOE

- A defined benefit with a pension multiplier of 1.5% times years of service and average final compensation plus a benefit improvement of 5%
- Retirement at age 60 with minimum of 5 years of service or after 30 years of service and any age
- Early retirement available with reduction at age 55 or after 25 years of service
- Annual cost of living adjustment with a 3% cap
- Current contribution rate of 12.69% for County General and BOE classified and 8.88% for BOE teachers and BOE certified of total full time salaries
- Vesting after 5 years of service
- BOE Teachers and certified contribute 5%

# What are other entities doing?

- State of Tennessee will implement a hybrid plan for newly hired full time Teachers, State, and Higher Education employees (includes BOE teachers and BOE certified) effective July 1, 2014; defined benefit is with 5 years vesting; defined contribution with immediate vesting
- Full time BOE certified employees hired July 1<sup>st</sup>, 2014 or later will be on the State's plan
- City of Murfreesboro has two defined contribution plans with 5 years cliff vesting
- City of Murfreesboro BOE teachers and certified will follow state; BOE classified are on Legacy plan with no employee contribution
- Town of Smyrna has a defined contribution plan with a 5 year graded vesting schedule
- City of LaVergne has a defined contribution plan with immediate vesting





# What are the types vesting for a Defined Contribution?

**Immediate Vesting** means the employee gains 100% ownership of their employer's match as soon as the money goes into their account

## **Cliff Vesting**

- Cliff Vesting plans transfer 100% ownership to the employee in one big chunk after a specific period of service. Employees have no right to any of the employer's matching contributions if they leave before that period expires. But the day they reach the vesting date, they own it all.

## **Graded Vesting**

- Graded vesting gives employees gradually increasing ownership of matching contributions as their length of service increases, resulting in 100% ownership. For example, a five year plan would grant 20% ownership per year until full vesting.

# *Options Rutherford County could consider are:*

- Option 1: TCRS Legacy Plan which is a defined benefit with a 1.5% multiplier; 5 or 10 year vesting; up to 3% COLA; employee contributions of 0%, 2.5% or 5%; and 5% benefit improvement
- Option 2: TCRS Alternate Defined Benefit plan with a 1.4% multiplier; 5 or 10 year vesting; up to 3% COLA; employee contributions of 0%, 2.5%, or 5%; and no additional benefit improvement
- Option 3: 2012 Or 2014 TCRS hybrid plans which are part defined benefit with a 1% multiplier; 5 year vesting; up to 3% COLA; 0%, 2.5% or 5% employee contributions; and no benefit improvement. The balance of this option is a defined contribution using Great West/Nationwide with 5% to 6% employer contribution; 2% to 5% employee contribution (employee may opt out on 2014 option); and immediate vesting
- Option 4: Straight defined contribution plan with 6% employer and employee contribution and immediate vesting



Plans and Options	Option 1- TCRS Legacy (as of July 1, 2012)***	Option 2 – TCRS Alternate Defined Benefit	Option 3a – TCRS Hybrid 2012 Version	Plan 3b - TCRS Hybrid 2014 Version	Plan 4 – Defined Contribution
Annual Service Multiplier	1.5%	1.4%	1%	1%	0%
Full Retirement*	Age 60 or 30 years service	Age 65 or Rule of 90 **	Age 65 or Rule of 90**	Age 65 or Rule of 90**	Age 65 or Rule of 90**
Employee Contribution	0%; 5% BOE teachers and certified	0%, 2.5%, or 5%	0%, 2.5%, or 5% on DB; up to 5% on DC	5% on DB; 2% on DC (can opt out)	6% max
Cost of Living	0% or 3% max	0% or 3% max	0% or 3% max	3% max	None
Benefit Improvement	5%	0%	0%	0%	0%
Total Employer Contribution	12.69% County General and BOE classified; 8.8% at BOE teachers and certified	5.8% with 2.5% employee contribution	3.5% on DB with 2.5% employee contribution; Max of 7% on DC	4% on DB; 5% on DC	6%
Vesting	5 years	5 or 10 years	5 years on DB; immediate on DC	5 years on DB; immediate on DC	Immediate

\*Note: There are early retirement options available at a reduced benefit on all plans.

\*\*Rule of 90 is age and years of service equal 90

\*\*\*Rates are effective for 2 years

# Cost of Each Option as of July 1, 2014

Plans and Options	Option 1- TCRS Legacy	Option 2 – TCRS Alternate Defined Benefit	Option 3a – TCRS Hybrid 2012 Version	Plan 3b - TCRS Hybrid 2014 Version	Plan 4 – Defined Contribution
Annual/Monthly Cost to County	DB - (11.97%) \$396,846/\$33,071 DC - \$0 <b>Total - \$396,846/\$33,071</b>	DB – (5.8%) \$192,290/\$16,024 DC - \$0 <b>Total - \$192,290/\$16,024</b>	DB estimate – (3.5%) \$116,037/\$9,670 DC max – (7%) \$232,074/\$19,340 <b>Total – \$348,111 - \$29,010</b>	DB – (4%) \$132,614/\$11,051 DC – (5%) \$165,767/\$13,814 <b>Total – \$298,381/\$24,865</b>	DB - \$0 DC – (6%) \$198,920/\$16,577 <b>Total – \$198,920/\$16,577</b>
Annual/Monthly Cost to the Employee	DB - \$0 DC - \$0 <b>Total - \$0</b>	DB - (2.5%) \$821/\$69 DC - \$0 <b>Total - \$821/\$69</b>	DB - (2.5%) \$821/\$69 DC – (2.5%) \$821/\$69 <b>Total - \$1,642/\$138</b>	DB - (2.5%) \$821/\$69 DC – (2%) \$657/\$55 <b>Total - \$1,478/\$124</b>	DB - \$0 DC – (6%) \$1,970/\$164 <b>Total – \$1,970/\$164</b>
Annual/Monthly Full Retirement Benefit - DB	\$14,779/ \$1,232	\$13,137/\$1,095	\$9,384/\$782	\$9,384/\$782	NA
Annual/Monthly Full Retirement Benefit - DC	NA	NA	Varies no guaranteed benefit	Varies no guaranteed benefit	<b>Varies no guaranteed benefit</b>

Estimates based upon County General employees only with an annual total salary of \$3,315,340

Estimates based upon employees' annual salary of \$31,279 or monthly salary of \$2,607 (pre-tax); \$1,905 (post tax average); \$476 per week

Estimates based upon full service retirement of 30 years

Estimates if applied to 2013 Full Time New Hires only

# TCRS Hybrid Plan Summary for BOE Teachers and BOE Certified hired on or after July 1, 2014

## Defined Benefit Component

- 1% annual service multiplier
- Eligibility for retirement at age 65 or Rule of 90
- Early retirement permitted at age 60 or Rule of 80 at a reduced benefit
- 5% of salary employee contribution for all participants (same as today)
- 4% of payroll contribution by employer
- 5 years vesting
- Cost of living adjustment of 3% maximum (*COLA must be provided by employer*)

## Defined Contribution

- 5% of salary employer contribution
- Auto enrollment required for all employees in DC plan of 2% (employee may opt out)
- Immediate Vesting

# BOE Recommendation

- The School Board voted on February 20, 2014 to approve the following motion and to send it to Steering:
- The Rutherford County Board of Education recommends to the Rutherford County Commission that the Legacy TCRS Retirement Plan be adopted for Rutherford County Schools full-time, classified employees hired after June 30, 2014 with these employees contributing 2.5% of their pay towards retirement and having a ten-year vesting period if the Commission decides to make a change from the current retirement options.

## **Alternate recommendation for County General and BOE Classified hired on or after July 1, 2014**

### ***Adopt TCRS Alternate Defined Benefit Plan***

- ***10 years vesting***
- ***1.4% Multiplier***
- ***0% Benefit Improvement***
- ***Max 3% COLA***
- ***Employee Contributions of 2.5%***
- ***Full retirement age of 65 or Rule of 90; early retirement at age 60 or Rule of 80 with a reduced benefit***
- ***Keep Nationwide as our county supplemental retirement 457b plan and Valic as the BOE supplemental 403b***

***NOTE -Expected cost to county with 5 years vesting is 8.97% for County General and BOE classified***

# Recommendations

Plans and Options	TCRS Legacy (current)	TCRS Legacy (as proposed by BOE)	TCRS Alternate Defined Benefit
Annual Service Multiplier	1.5%	1.5%	1.4%
Full Retirement*	Age 60 or 30 years service	Age 60 or 30 years service	Age 65 or Rule of 90 **
Employee Contribution	0%	2.5%	2.5%
Cost of Living	3% max	3% max	3% max
Benefit Improvement	5%	5%	0%
Total Employer Contribution	11.97% County General and BOE classified	11.97% County General and BOE classified	5.8%
Vesting	5 years	10 years	10 years

**\*Note: There are early retirement options available at a reduced benefit on all plans.**

**\*\*Rule of 90 is age and years of service equal 90**



# Cost of Each Option as of July 1, 2014

Plans and Options	TCRS Legacy - Current	TCRS Legacy – BOE proposed	TCRS Alternate Defined Benefit
Annual/Monthly Cost to County	DB - (11.97%) \$396,846/\$33,071 DC - \$0 <b>Total - \$396,846/\$33,071</b>	DB - (11.97%) \$396,846/\$33,071 DC - \$0 <b>Total - \$396,846/\$33,071</b>  (County rate on DB would change after waiting period to an estimated 9.47%)	DB – (5.8%) \$192,290/\$16,024 DC - \$0 <b>Total - \$192,290/\$16,024</b>
Annual/Monthly Cost to the Employee	DB - \$0 DC - \$0 <b>Total - \$0</b>	DB – (2.5%) \$821/\$69 DC - \$0 <b>Total - \$821/\$69</b>	DB - (2.5%) \$821/\$69 DC - \$0 <b>Total - \$821/\$69</b>
Annual/Monthly Full Retirement Benefit - DB	\$14,779/ \$1,232	\$14,779/ \$1,232	\$13,137/\$1,095
Annual/Monthly Full Retirement Benefit - DC	NA	NA	NA

Estimates based upon County General employees only with an annual total salary of \$3,315,340

Estimates based upon employees' annual salary of \$31,279 or monthly salary of \$2,607 (pre-tax); \$1,905 (post tax average); \$476 per week

Estimates based upon full service retirement of 30 years

Estimates if applied to 2013 Full Time New Hires only

# Questions?